

IN THE COURT OF APPEALS OF TENNESSEE  
AT KNOXVILLE  
June 23, 2000 Session

**A. W. BREWER v. FI-SHOCK, INC.**

**Interlocutory Appeal from the Circuit Court for Knox County  
No. 1-52898 Dale C. Workman, Judge**

**FILED NOVEMBER 17, 2000**

**No. E1999-01988-COA-R9-CV**

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This is a Rule 9 interlocutory appeal for a determination as to whether federal district court had exclusive subject matter jurisdiction to hear this matter. The Appellee filed suit in Circuit Court averring that he was the owner of an invention known as “The Boss”, and he had entered into a License Agreement with Fi-Shock, Inc., in which Fi-Shock agreed to manufacture, market and sell “The Boss” and compensate Mr. Brewer, and that Fi-Shock breached the agreement. Mr. Brewer further averred that Fi-Shock intentionally interfered with his property rights, thereby denying him compensation to which he was entitled and that his invention was protected by a United States Patent. Mr. Brewer sued for compensatory damages not to exceed \$1,000,000. Fi-Shock filed a motion to dismiss averring that only the United States District Court had subject matter jurisdiction under 28 U.S.C. § 1338(a). The trial court denied the motion. Defendant sought an Rule 9 interlocutory appeal which was granted by the Trial Court and this Court. We affirm the decision of the Trial Court.

**Tenn R. App. P. 9 Interlocutory Appeal; Judgment of the Circuit Court is affirmed.**

HOUSTON M. GODDARD, P.J., delivered the opinion of the court, in which CHARLES D. SUSANO, JR., and D. MICHAEL SWINEY, JJ., joined.

Lynn Tarpy and Thomas M. Leveille, Knoxville, Tennessee, for the appellant Fi-Shock, Inc.

D. Scott Hurley, Knoxville, Tennessee, for the appellee, A. W. Brewer

**OPINION**

This is a Rule 9 interlocutory appeal for a determination as to whether federal district court had exclusive subject matter jurisdiction to hear this matter. The Appellee filed suit in Circuit Court averring that he was the owner of an invention known as “The Boss”, and he had entered into a License Agreement with Fi-Shock, Inc., in which Fi-Shock agreed to manufacture, market and sell “The Boss” and compensate Mr. Brewer, and that Fi-Shock breached the

agreement. Mr. Brewer further averred that Fi-Shock intentionally interfered with his property rights, thereby denying him compensation to which he was entitled and that his invention was protected by a United States Patent. Mr. Brewer sued for compensatory damages not to exceed \$1,000,000. Fi-Shock filed a motion to dismiss averring that only the United States District Court had subject matter jurisdiction under 28 U.S.C. § 1338(a).

The sole issue in this interlocutory appeal is whether Knox County Circuit Court erred in failing to grant the Motion to Dismiss filed by the Defendant, Fi-Shock, Inc.. Defendant avers that the Tennessee state court lacks subject matter jurisdiction over the Complaint filed by the Plaintiff, A. W. Brewer.

## I. FACTS AND STATEMENT OF THE CASE

Because on a Motion to Dismiss, we must take the facts alleged by the Plaintiff in his complaint as true, the complaint as pertinent here reads as follows:

3. Plaintiff would aver that on or about March 9, 1988, Plaintiff entered into a certain agreement with the Defendant styled “Memorandum of Understanding”. Pursuant to that agreement, Plaintiff agreed to provide to Defendant certain information regarding an invention for which he was responsible, with said invention being a water-level measuring device known as “The Boss”. Plaintiff agreed to enter into negotiations with the Defendant for the purpose of allowing Defendant to manufacture and sell this device. Plaintiff agreed to allow Defendant to make a prototype of the invention and to show the same at a trade show for purpose of determining market reception for the invention. Further, pursuant to the agreement, Defendant expressly agreed that Plaintiff would retain any and all property and patent rights, and that Defendant would not otherwise attempt to use, sell, or transfer Plaintiff’s design, or to otherwise infringe upon Plaintiff’s rights to the invention.. . .

4. Plaintiff would aver that on or about April 4, 1988, Plaintiff entered into a certain “License Agreement” with the Defendant. Pursuant to that License Agreement, Defendant agreed to manufacture, market and sell the invention of the Plaintiff and to compensate Plaintiff for such rights under the terms of the License Agreement. . . .

5. Plaintiff would aver that after the execution of the License Agreement. . ., Defendant engaged in numerous activities which violated and breached the agreement to the harm and detriment of the Plaintiff. Plaintiff would aver that Defendant:

(a) Failed and refused to make royalty payments to Plaintiff for water level units that were sold by Defendant;

(b) Failed and refused to make royalty payments to Plaintiff for hose units that were sold by Defendant.

6. As a result of numerous violations of the agreement between the Plaintiff and Defendant, Plaintiff notified Defendant of his intent not to renew the agreement at the end of the one (1) year term as provided therein. Plaintiff subsequently attempted to allow other parties to manufacture and market his invention, and even entered into certain agreements with other parties to accomplish the same. However, Defendant continued to manufacture Plaintiff's invention; using virtually the same manufacturing process. Plaintiff would aver that the Defendant simply continued to copy and manufacture his invented product, changing only the name of the product to that of "Carpenter's Choice". Plaintiff would aver that Defendant even continued to use the same packaging for the product, making virtually no changes in the packaging or wording on the packaging. As a result of these inflammatory actions on the part of the Defendant, in direct violation and breach of any and all agreements entered into by the parties, Plaintiff has been unable to market or otherwise manufacture or sell his product, due to the fact that Defendant already has that product on the market with sales agreements with various parties, thereby shutting the Plaintiff out of the market for his own product.

7. Plaintiff would aver that the Defendant has intentionally interfered in the property rights of Plaintiff, thereby denying Plaintiff the compensation to which he was entitled, and further inhibiting and destroying Plaintiff's ability to do business by selling, manufacturing or marketing his own invention.

8. Plaintiff would aver that the concepts and ideas pertaining to the product known as "The Boss" are protected by a United States Patent, and that the actions of the Defendant constitute an infringement upon that patent. Plaintiff would further aver that said infringement was intentional and purposeful on the part of the Defendant for the sole purpose of Defendant enriching itself at Plaintiff's expense.

Wherefore, premises considered, Plaintiff would sue the Defendant for compensatory damages not to exceed One Million Dollard (\$1,000,000.00), and for his costs and such other relief as the Court and the jury would deem proper.. . .

The Defendant filed a motion to dismiss pursuant to Rule 12.02(1) and 12.02(6) of the Tenn. R. Civ. P., asserting that the State court did not have subject matter jurisdiction because exclusive jurisdiction of a cause of action based upon patent infringement is in the United States District Courts and any issues concerning an alleged breach of the license agreement were integrally related to the patent issue for which the federal courts have exclusive jurisdiction. The trial court denied the motion to dismiss. Defendant filed an application for permission to appeal which was ultimately granted by the Circuit Court and this Court.

## II. LAW AND DISCUSSION

Subject matter jurisdiction relates to the right of the court to adjudicate or to make an award through the remedies provided by law upon facts proved, or admitted, in favor of or

against persons who present them or who are brought before the court under sanction of law. Jurisdiction of the subject-matter is not waived by appearance and may be taken advantage of at any stage of the proceeding. See Brown v. Brown, 155 Tenn. 530, 296 S.W. 356, 358 (Tenn. 1928) and the cases cited therein.

Pursuant to 28 U.S.C. § 1338(a)<sup>1</sup> the Federal courts have exclusive jurisdiction of all cases arising under the patent laws, but not all questions in which a patent may be the subject matter of the controversy. The state courts may try questions of title, and may construe and enforce contracts relating to patents. New Marshall Engine Co. v. Marshall Engine Co., 223 U.S. 473, 478, 32 S. Ct. 238, 239 (1912); Combs v. Plough, Inc.,<sup>2</sup> 681 F.2d 469, 470 (6<sup>th</sup> Cir. 1982).

“The general rule is that where an action is brought to enforce, set aside, or annul a contract, the action arises out of the contract, and not under the patent laws, even though the contract concerns a patent right.” Combs, 681 F.2d at 470 (citations omitted). The Combs court went on and affirmed the test to establish jurisdiction under federal law as set forth by the court in Dill Mfg. Co. v. Goff, 125 F.2d 676, 678 (6<sup>th</sup> Cir. 1942).

(1), the plaintiff initially must have the right to sue for infringement even though his title is challenged and in the suit may be defeated; (2), he must plant his suit upon such right as a patent infringement suit requiring no aid of an equity court as a primary condition for the recovery of damages or the granting of an injunction.

In Christianson v. Colt Industries Operating Corp., 486 U.S. 800, 108 S.Ct. 2166 (1988), the Supreme Court explained when an action arises under federal patent law:

[I]n order to demonstrate that a case is one "arising under" federal patent law "the plaintiff must set up some right, title, or interest under the patent laws, or at least make it appear that some right or privilege will be defeated by one construction, or sustained by the opposite construction, of these laws." ... A district court's federal question jurisdiction ... extends over "only those cases in which a well pleaded complaint establishes either that federal law creates the cause of action or that the plaintiff's right to relief necessarily depends on resolution of a substantial question of federal law," in that "federal law is a necessary element of one of the well pleaded ... claims." Linguistic consistency, to which we have historically adhered, demands that 1338(a) jurisdiction likewise extend only to those cases in which a well-pleaded complaint established either that federal patent law creates

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<sup>1</sup>(a) The district courts shall have original jurisdiction of any civil action arising under any Act of Congress relating to patents, plant variety protection, copyrights and trade-marks. Such jurisdiction shall be exclusive of the courts of the states in patent, plant variety protection and copyright cases.

<sup>2</sup>In Combs the court held it did not have jurisdiction because the patent infringement question could not be reached without first deciding the validity of the assignment - a state law question.

the cause of action or that the plaintiff's right to relief necessarily depends on resolution of a substantial question of federal patent law, in that patent law is a necessary element of one of the well-pleaded claims.

Christianson, 486 U.S. at 808-09, 108 S.Ct. at 2173 (citations omitted).

The Court further explained the well-pleaded complaint rule in the context of a patent case:

Under the well-pleaded complaint rule, as appropriately adapted to 1338(a), whether a claim "arises under" patent law "must be determined from what necessarily appears in the plaintiff's statement of his own claim in the bill or declaration, unaided by anything alleged in anticipation or avoidance of defenses which it is thought the defendant may interpose." Thus, a case raising a federal patent-law defense does not, for that reason alone, "arise under" patent law, "even if the defense is anticipated in the plaintiff's complaint, and even if both parties admit the defense is the only question truly at issue in the case." Thus, a case raising a federal patent-law defense does not, for that reason alone, "arise under" patent law, "even if the defense is anticipated in the plaintiff's complaint, and even if both parties admit that the defense is the only question truly at issue in the case. On the other hand, merely because a claim makes no reference to federal patent law does not necessarily mean the claim does not "arise under" patent law. Just as "a plaintiff may not defeat removal by admitting to plead necessary federal questions in a complaint," so a plaintiff may not defeat §§ 1338(a) jurisdiction by omitting to plead necessary federal patent-law questions.

Christianson, 486 U.S. at 809-10 and n. 3, 108 S.Ct. at 2174-75 (citations omitted).

A close scrutiny of the complaint filed in this matter reveals that the Plaintiff seeks the enforcement of the License Agreement, including the payment of royalties for the water level and hose units, affirmation of his right to cancel the License Agreement, and compensatory damages for the breach of the License Agreement by the Defendant's continuing to manufacture and distribute – including executing distributor sales agreements – "The Boss" units under the name of "Carpenter's Choice". While the Plaintiff has prayed for "such other relief as the Court and the jury would deem proper," he does not specifically seek an injunction or triple damages as he could under patent law infringement. He just seeks damages for the breach of the License Agreement.

As the court found in New Marshall Engine Co. v. Marshall Engine Co., 223 U.S. 473, 478, 32 S. Ct. 238, 239 (1912), the allegations contained in the complaint do not involve any construction of the meaning or effect of a patent.

The Defendant argues that ¶ 8 of the complaint sets this case under the jurisdiction of the federal district court and not under the jurisdiction of the state court. Until the rights of the

parties under the License Agreement are adjudicated it will not be known whether or not there actually was any “infringement” of the rights of the holder of the letters of patent. That the Plaintiff used the word “infringement” twice in his complaint is irrelevant.<sup>3</sup>

Additionally, we find the following helpful in determining whether a suit arises under federal patent law or under state law. The court in RustEvader Corp. v. Cowatch, 842 F. Supp. 171, 173 (W.D. Penn. 1993) quoting with approval from Beech Aircraft Corp. v. Edo Corp., 900 F.2d 1237, 1248 (Fed. Cir. 1993), distinguished between inventorship and ownership.

Inventorship and ownership are separate issues. Inventorship is “a question of who(m) actually invented the subject matter claimed in a patent. Ownership, however, is the questions of who(m) owns legal title to the subject matter in a patent. . . .”

Here there is no question as to whom invented “The Boss”. What is at issue in the complaint is the License Agreement and the rights of the respective parties under that Agreement, including enumeration under the Agreement and what may be termed tortious interference with the Plaintiff’s rights to contract with other manufacturers and/or distributors of his invention.

Much of the law cited by both parties in their briefs was succinctly reviewed and set forth in Hold Stitch Fabric Machine Co. v. May Hosiery Mills, 184 Tenn. 19, 195 S.W. 18 (1946), where the court found that the basic purpose of the suit was to remove clouds on the title of complainant to certain property, which happened to be patent rights, and held that the state Chancery Court properly had jurisdiction.

As the court said in Lockett v. Delpark, 270 U. S. 496, at 510, 46 S. Ct. 397 (1926), citing the principle laid down in Wilson v. Sandford, 51 U. S. (10 How.) 99 (1850), “where a patentee complainant makes his suit one for recovery of royalties under a contract of license or assignment, or for damages for a breach of its covenants, or for a specific performance thereof, or asks the aid of the court in declaring a forfeiture of the license, or in restoring an unclouded title to the patent, he does not give the federal District Court jurisdiction of the cause as one arising under the patent laws. Nor may he confer it in such as case by adding to his bill an averment that after the forfeiture shall be declared, or the title to the patent shall be restored, he fears the defendant will infringe, and therefore asks an injunction to prevent it.” It is plain that the Plaintiff in this action has chosen and based his action on the License Agreement and not on patent law.

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<sup>3</sup>The Combs court quoted with approval from Ausherman v. Stump, 643 F.2d 715 (10<sup>th</sup> Cir. 1981) where it said: “The trial court concluded that, notwithstanding the fact that Ausherman had liberally sprinkled the word ‘infringement’ throughout his pleading, the complaint did not set forth a ‘civil action arising under any Act of Congress relating to patents,’ as required by section 1338(a).”

The decision of the trial court retaining jurisdiction is affirmed and the case is remanded to the trial court for further proceedings. Costs on appeal are adjudged against the appellant Fi-Shock and its surety.

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HOUSTON M. GODDARD, PRESIDING JUDGE